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EX PARTE OR LATE FILED



August 31, 1999

Ms. Magalie R. Salas
Secretary
Federal Communications Commission
The Portals
445 12th Street S.W.
TW-A325 - 12th Street Lobby
Washington, D.C. 20554

RECEIVED

AUG 31 1999

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: **Ex Parte**
CC Docket 98-137- In the Matter of 1998 Biennial Review-Review of Depreciation
Requirements for Incumbent Local Exchange Carriers and ASD Docket No. 98-81, USTA
Petition for Forbearance from Depreciation Regulation

Dear Ms. Salas:

On August 31, 1999 Edward Googe and the undersigned representing Bell Atlantic met with Ms. Linda Kinney of Commissioner Ness's Office to discuss the above referenced proceedings.

The discussion reflected the positions that Bell Atlantic had provided in their written comments and reply already on the record. A copy of the discussion guide used during the meeting is attached.

An original and a copy of this Ex Parte is being filed in the office of the Secretary on August 31, 1999. Please include it in the public record of the above referenced proceeding.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read 'Gerald Asch'.

Gerald Asch

Attachment

cc: Ms. Kinney w/o Attachment

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DEPRECIATION FORBEARANCE

BELL ATLANTIC EX PARTE

8/31/99

CC Docket No. 98-137

ASD 98-81

FORBEARANCE IS REQUIRED NOW

■ INTRODUCTION:

PURE PRICE CAPS

SECTION 10(a) REQUIRES FORBEARANCE

LECS HAVE ADDRESSED PARAGRAPH 6

FORBEARANCE ≠ COMPLETE

DEREGULATION

GAAP PRINCIPLES

FCC DEPRECIATION REGULATION IS NOT

NEEDED BY STATE COMMISSIONS

PURE PRICE CAPS

■ SHARING AND COMPETITION CONCERNS EXPRESSED IN 1993 NO LONGER RELEVANT

LECs Under Pure Price Caps

“Many-- but by no means all -- of the fundamental prerequisites for fully competitive, deregulated local telecommunications markets are now in place. (*A New FCC for the 21st Century, Draft Strategic Plan, p. 5, released 8/99*).”

PURE PRICE CAPS, CONT'D

■ DEPRECIATION HAS NO IMPACT ON DAY TO DAY RATE LEVELS

Endogenous

No Relation Between Accounting Earnings and Productivity (Statement of Professor Frank M. Gollop, Attachment B to USTA Comments)

Per Depreciation Simplification, Commission should "reevaluate its decision" to retain depreciation regulation

FORBEARANCE REQUIRED BY SECTIONS 10(a) & 11

- DEPRECIATION REGULATION NO LONGER NECESSARY TO ENSURE REASONABLE RATES
- FORBEARANCE IS IN PUBLIC INTEREST
 - ELIMINATES REGULATORY COSTS
 - HELPS TO MAINTAIN INCENTIVE FOR LECS TO INVEST IN LOCAL NETWORKS
 - FULFILLS CONGRESS'S COMPETITIVE VISION -
“[ensures] there are economically rational options for those wanting to enter the market” (Remarks of Chairman Kennard to Legg Mason, 3/12/98)
- CONSISTENT WITH POLICY INITIATIVE TO
“consider additional areas that may be appropriate for forbearance...” (Draft Strategic Plan, p. 11)

PARAGRAPH 6 CONCERNS

LFAM

FCC retains authority to review
LEC depreciation practices

ABOVE-CAP FILING

Stringent cost showing already
required. [47 C.F.R., 61.49(e),
61.46 (c) and 61.47 (d)]

'X' FACTOR

Does not vary with changes in
depreciation levels

UNIVERSAL SERVICE

GAAP is forward looking and
thus consistent with Commission
measure of universal service;
GAAP would eliminate
mismatch between ILECs and
CLECs

CONCERNS, CONT'D

BFP

Per line revenue option is available; does not determine overall level of rate recovery

EXOGENOUS COSTS

Depreciation is endogenous; FCC has used revenues, rather than costs, to determine exogenous costs adjustments

UNE PRICES

FCC and some state commissions have endorsed use of economic depreciation; other states are free to set own depreciation

FORBEARANCE \neq COMPLETE DEREGULATION

- FCC AUDIT AUTHORITY
- TARIFF REVIEW
- FORMAL COMPLAINT
- INDEPENDENT AUDITS
- NEW ENFORCEMENT BUREAU

One of FCC's core goals will include enforcement and promotion of competitive markets (Draft Strategic Plan, p. 3)

Role of prospective regulation should decrease

GAAP PRINCIPLES

- MATCHING
- CONSISTENCY IN REPORTING
- CONSERVATISM
- SAME DEPRECIATION RULES FOR ALL

GAAP -v- FCC

(Millions)

	GAAP	FCC
RESERVES	42,422	36,712
ACCRUALS	5,016	5,081

STATE COMMISSIONS NO LONGER RELY ON FCC

■ ONLY TWO COMMISSIONS FILED COMMENTS

— FCC action should not affect authority of state regulators over intrastate operations (FPSC at 9)

— Forbearance would not interfere with state responsibilities (VSCC comments at 5)

■ State Commissions Have Been Progressive

— Many States Have Adopted GAAP (VSCC Comments at 3; BellSouth Comments at 6; GTE Comments at 14)

STATE REGULATORY STATUS

State	Some Lives Below FCC Ranges	Alternative Regulation Plan (ARP)	Ability to Set Rates	Requires FGC Participation	Comments
Pennsylvania	Yes	Yes	Yes	No	Required to file Annual Report and Service Life Study triennially.
New Jersey	Yes	Yes	Yes	No	No formal state requirements.
Delaware	No	Yes	Yes	No	No formal state requirements.
Virginia	Yes	Yes	Yes	No	ARP requires monitoring.
West Virginia	Yes	Yes	Yes	No	No formal state requirements.
Maryland	Yes	Yes	Yes	No	No formal state requirements.
Washington	Yes	Yes	Yes	No	No formal state requirements.
New York	Yes	Yes	Yes	No	ARP sets depreciation floor.
Massachusetts	Yes	Yes	Yes	No	ARP allows for flexibility in setting new rates and requires lives to be no longer than FCC lives.
Maine	Yes	Yes	Yes	No	ARP allows for flexibility in setting new rates.
New Hampshire	Yes	No	No	No	Under rate of return regulation and continues to follow traditional depreciation practices.
Vermont	Yes	No	No	No	Under rate of return regulation and continues to follow traditional depreciation practices.
Rhode Island	Yes	Yes	Yes	No	ARP allows flexibility and requires composite depreciation rate not below the 1/1/94 rate.
Connecticut	No	No	No	No	Under rate of return regulation and continues to follow traditional depreciation practices.

CONCLUSION

■ FORBEARANCE

IS MANDATORY PURSUANT TO
SECTIONS 10(a) & 11

WILL PROMOTE COMPETITION

■ “Eliminating outdated rules will play an important role in accelerating the transition to fully competitive markets.” (Draft Strategic Plan, p. 14)

WILL NOT HINDER OTHER FCC
RESPONSIBILITIES

■ GAAP AND OTHER CONTROLS REMAIN IN
PLACE